

PUBLIC DISCLOSURE

April 9, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Chasewood Bank
Certificate Number: 24272**

**20333 State Highway 249
Houston, Texas 77290-0888**

**Federal Deposit Insurance Corporation
Division of Depositor and Consumer Protection
1601 Bryan Street
Dallas, Texas 75201**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **The Chasewood Bank, Houston, Texas**, prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **April 9, 2012**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated **Satisfactory**.

The bank also received a Satisfactory rating at its previous April 2, 2007, CRA evaluation.

For this two office, \$116 million bank located in Houston, Texas, examiners applied those performance factors applicable to small banks: loan-to-deposit ratio, lending inside the assessment area, lending to businesses of different sizes, geographic distribution of loans, and response to CRA related complaints. Examiners reviewed a sample of commercial loans to determine the bank's record of lending. Management did not request the review of qualified investments and services.

In arriving at the overall rating for this institution, examiners put less weight on the geographic distribution of loans, as the bank's assessment area does not include any low- or moderate-income census tracts. Similarly, there were not any CRA related complaints received since the last evaluation so this factor played no part in the assignment of the overall rating. Commercial loans were evaluated since commercial / small business loans make up 61.1 percent of the bank's originations within the 12 month period. Individual conclusions for the factors reviewed are summarized below, with performance under each test detailed elsewhere in this evaluation.

- The bank's average net loan-to-deposit ratio for the past 19 quarters of 40.89 percent demonstrates a reasonable performance.
- A majority of sampled loan originations are within the bank's assessment area reflecting satisfactory performance.
- Considering the loan product sampled and area demographics, the bank demonstrates an excellent performance level of lending to businesses of various sizes, particularly businesses with gross annual revenues of \$1 million or less.
- The bank has achieved a reasonable geographic dispersion of loans within its assessment area given the geographic composition of the designated assessment area, the asset size of the bank, and the location of the bank's offices.

SCOPE OF EXAMINATION

Small bank evaluation procedures generally consider the bank's performance in providing residential, small business, small farm credit, as well as consumer loans to the community. Based on the bank's business strategy and history of lending as noted in Table 1, examiners determined that commercial ("small business") loans would best reflect the institution's performance in meeting the credit needs of the community since commercial (commercial real estate and commercial & industrial) lending is the bank's largest loan concentration by number (64.8 percent) and dollar (86.1 percent) volume. Since residential loans represented only 11.1 percent by number and 7.7 percent by dollar volume of the originations, they were not considered in the analysis. To evaluate the bank's most recent performance, examiners sampled from lending activity that occurred within the past 12 months.

Table 1 — Loan Originations from February 23, 2011 through February 23, 2012				
Loan Type	Number	Percent (%)	Dollar \$(000)	Percent (%)
Commercial Real Estate	18	33.3	4,851	56.0
Multi-family	1	1.9	228	2.6
Commercial & Industrial	17	31.5	2,612	30.1
Residential 1-4 Family	6	11.1	664	7.7
Consumer	12	22.2	310	3.6
Total Loans	54	100.0	8,665	100.0

Source: Bank records

A random sample of 24 small business loans totaling \$2,405,000 were reviewed out of the 35 total commercial loans (Commercial Real Estate and Commercial & Industrial) totaling \$7,463,000. Of the 24 loans sampled, 15 loans totaling approximately \$1,130,000 were located within the bank's assessment area. Examiners analyzed only those loans extended within the assessment area for borrower profile and geographic distribution. The samples were based on a 90 percent confidence interval and 15 percent precision level.

DESCRIPTION OF INSTITUTION

The Chasewood Bank is a commercial bank that operates two offices approximately 25 miles northwest of the central business district of Houston, Texas. The institution's main office and branch office are located in a suburban area in the northwestern portion of Harris County. The branch office is located approximately 5 miles east from the main office in a residential area. The institution's business strategy is to maintain its "community" reputation and image and provide customers with personal service.

The Chasewood Bank's December 31, 2011, Consolidated Report of Condition and Income report total assets of \$115,934,000 and total loans of \$38,108,000. Tables 2 and 3 below contain information about the bank's loan portfolio and asset categories.

Table 2 — Loan Distribution as of December 31, 2011		
Loan Type	Amount \$(000)	Percent of Total Loans (%)
Construction & Land Development	5,611	14.7
1-4 Family Residential	4,971	13.1
Multi-Family Residential	309	0.8
Commercial Real Estate	20,456	53.7
<i>Total Real Estate Loans</i>	<i>31,347</i>	<i>82.3</i>
Commercial & Industrial	6,334	16.6
Consumer	764	2.0
Other	1	0.0
Less: Loan Loss Allowance	338	0.9
Total Loans	38,108	100.0

Source: December 31, 2011 Consolidated Reports of Condition and Income

Table 3 — Asset Distribution as of December 31, 2011		
Asset Category	Dollar Amount \$(000)	Percent of Assets (%)
Cash & Due from Banks	3,093	2.7
Securities	51,496	44.4
Fed Funds Sold	22,250	19.2
Loans & Leases (net)	38,108	32.9
Premises & Fixed Assets	215	0.2
Other Assets	772	0.6
Total Assets	115,934	100.0

Source: December 31, 2011 Consolidated Reports of Condition and Income

The Chasewood Bank is a small independent community bank that offers a full range of financial products including commercial, real estate, and consumer loans. The institution offers an array of deposit services, including demand deposits, NOW, MMDA, savings, and time accounts. The main office and branch lobby hours are 9:00 a.m. to 4:00 p.m. Monday through Thursday and 9:00 a.m. to 6:00 p.m. on Friday. The lobby is open 9:00 a.m. until noon on Saturday. The drive-in hours are 7:00 a.m. to 7:00 p.m. Monday through Saturday at the main office. Drive-in hours at the branch office are 7:00 a.m. to 7:00 p.m. Monday through Friday and 9:00 a.m. to 1:00 p.m. on Saturday. The Chasewood Bank has four on-site automated teller machines ("ATMs") that allow customers 24-hour access to their accounts. One of the ATMs at the

branch locations accepts deposits. The bank offers both PC (personal computer) banking and Internet banking with in-house transactional capabilities. In addition, the bank offers customers 24-hour telephone access to their accounts in both English and Spanish.

The bank did not perform any branching or merger / acquisition activities since the last examination.

DESCRIPTION OF ASSESSMENT AREA

Scope

The Chasewood Bank's defined assessment area consists of 22 contiguous census tracts in the northwestern portion of Harris County, which is 1 of the 10 counties within the Houston-Sugar Land-Baytown, TX Metropolitan Statistical Area ("MSA"). The bank's main and branch offices are both located in upper-income geographies. The bank's assessment area, which consists of 7 middle-income and 15 upper-income geographies, meets CRA requirements and does not arbitrarily exclude low- and moderate-income areas.

Demographic Data

Based on the 2000 U. S. Census ("Census"), the assessment area has a population of 150,135. Table 4 below illustrates general demographic information of the bank's assessment area according to the Census.

Table 4 — Assessment Area Demographics						
Income Level	Number of Census Tracts	Percent of Census Tracts (%)	Population	Percent of Population (%)	Number of Households	Percent of Households (%)
Middle	7	31.8	44,543	29.7	17,431	30.8
Upper	15	68.2	105,592	70.3	39,180	69.2
Total	22	100.0	150,135	100.0	56,611	100.0

Source: 2000 U.S. Census

Although the assessment area does not include any low- or moderate-income census tracts, the Census report of households and family income indicates that 9 percent of the households in the assessment area are considered low-income households and 10 percent are considered moderate-income households. Approximately 4 percent of families live below the poverty level.

Economic Data

Strong growth in the Houston economy is the primary driver of the state. Houston's economy continues to rely heavily on energy-related industries. The acquisition of Compaq Computer by

Hewlett Packard (“HP”) in 2002 did not impact the area significantly although some jobs were initially lost. Subsequently, HP transferred other manufacturing jobs from California to this area. HP is located in close proximity to the bank’s main office.

There has been a steady rate of growth along State Highway 249 where the main office is located. Several high-end builders have built estate home parks in the area. In addition, a town-market style retail center, an upscale senior living center, and a large supermarket have been built within 2 miles from the main office.

It is predicted that Houston will continue to grow steadily in 2012. The major drivers will be further gains in the energy industry, nonresidential construction, and residential construction. Related manufacturing and professional services will also benefit as large companies relocate more of their operation headquarters. Long-term, above-average population growth and further expansion in energy, health-related, and transportation and distribution industries will help propel above-average gains for the metropolitan area.

Harris County’s unemployment rate has been fluctuating from the first quarter of 2009 at 6.6 percent to a high of 8.7 percent in both the first quarter of 2010 and third quarter of 2011. The current unemployment rate, as of the fourth quarter 2011 is 7.6 percent; this is a 1.1 percentage point decrease from the third quarter of 2011. The State unemployment rate for the fourth quarter of 2011 was 7.3 percent and the national unemployment rate was 8.3 percent for the same period.

The Department of Housing and Urban Development (“HUD”) estimated the weighted average of the 2011 Median Family Income (“MFI”) for the Houston-Sugar Land-Baytown, TX MSA as \$66,000.

Community Contact

Examiners interviewed one community contact to assist in the performance context of this evaluation. The contact provided information regarding the current local economic trends and credit needs in the area. The interview was with a local small business owner that is located in and serves the bank’s assessment area.

The opportunity for bank involvement is great in this growing area. Residential and commercial lending would present the most opportunity with the growth rate of the community. Multifamily and small business lending opportunities should increase as the community grows.

The area’s financial industry is competitive yet not overcrowded. The contact believed that local banks are very involved in community services and that local area credit needs are being served properly. As far as the contact is aware of, there are no grievances against any of the local banks. The community contact stated that the local area community banks and branches of larger banks are very active in the community

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The bank's lending activity, as measured by the loan-to-deposit ("LTD") ratio, is reasonable. Since loans are primarily funded through the bank's deposits, examiners reviewed the bank's LTD ratio as an indicator of the institution's level of lending activity. As indicated in Table 5, The Chasewood Bank's average net LTD ratio for the past 19 quarters since the previous evaluation in April 2007 is 40.89 percent. The bank's current net LTD ratio as of December 31, 2011 is 36.1 percent.

Table 5 – Loan-to-Deposit Ratio Comparative Analysis as of December 31, 2011				
Bank Name / Location	Total Assets \$(000)	Net Loans \$(000)	Total Deposits \$(000)	Average Net LTD Ratio (%)
<i>The Chasewood Bank / Houston, TX</i>	<i>116</i>	<i>38</i>	<i>106</i>	<i>40.89</i>
Comparable Banks:				
First State Bank – Clute, TX	123	62	110	55.81
First National Bank of Alvin – Alvin, TX	111	18	91	26.32
Loan Star Bank – Houston, TX	115	87	98	100.77

Source: December 31, 2011 Consolidated Reports of Condition and Income

To assist in the analysis of the adequacy of the bank's LTD ratio, the ratios of similar-sized institutions located in the Houston area were also reviewed. The similar-sized institutions listed above were reviewed for comparability of branching networks, product mix, and customer base. All three of the similar-sized institutions listed above are located in the Houston area and have more than one-half of their loan portfolios in commercial loans. The bank's average net LTD ratio is lower than 2 of 3 of comparable banks. However, seven of the bank's depositors maintain approximately \$22 million dollars in their accounts, which represents 20.7 percent of total deposits. These customers have little to no credit needs. If these deposits are excluded, the bank's net LTD ratio increases to approximately 45.2 percent.

Additionally the assessment area has more than 20 institutions consisting of large national, regional, and other local community banks. These institutions do not take into consideration branches of national banks competing within the bank's defined assessment area.

After consideration of the characteristics of the deposit base, the bank's overall LTD ratio is considered reasonable.

LENDING INSIDE THE ASSESSMENT AREA

The Chasewood Bank's proportion of lending activity within the assessment area is satisfactory.

An assessment area is a geographical area in which the bank intends to concentrate the majority of its lending. Criteria for a bank's lending performance is based on the number and dollar volume of loans originated within the assessment area. Table 6 illustrates the bank's record of small business lending in the assessment area.

Table 6 — Distribution of Loans Inside and Outside of the Assessment Area										
Loan Category	Number of Loans					Dollar Volume of Loans				
	Inside		Outside		Total	Inside		Outside		Total \$(000)
	#	%	#	%		\$(000)	%	\$(000)	%	
Small Business	15	62.5	9	37.5	24	1,130	32.0	2,405	68.0	3,535

Source: Bank records

As shown in Table 6 above, The Chasewood Bank originates a majority by number of small business loans inside the assessment area. A majority of the small business loans by dollar volume are originated outside the assessment area, while only 32 percent of small business loans by dollar volume are made in the assessment area. A review of the nine commercial loans originated outside the bank's assessment area indicate that three of these loans were made close to the bank's assessment area in adjacent census tracts. If these three loans totaling \$1,404,000 were inside of the assessment area, the percentage by dollar volume of lending inside the assessment area would increase to 72 percent.

The Chasewood Bank's assessment area is highly saturated with a large number of national, regional, and community banks. As a result, competition among banks is very keen within the bank's assessment area.

Overall, the bank's level of lending within the assessment area is considered satisfactory relative to the size of the assessment area in relation to the bank's size and number of offices.

LENDING TO BUSINESSES OF DIFFERENT SIZES

The bank's overall record of lending businesses of different sizes is excellent. The review of the small business loan analysis was conducted using 2011 Dun & Bradstreet ("D&B") Data for the assessment area.

Small Business Loans

Lending performance was analyzed by using D&B data for gross annual revenues (“GARs”) of businesses.

Table 7 — Distribution of Small Business Loans by Gross Annual Revenues					
Gross Annual Revenue Level \$(000)	Percent of Businesses	Number of Loans	Percent (%)	Amount of Loan \$(000)	Percent (%)
Less than 100	37.4	6	40.0	460	40.7
100 < 250	26.2	4	26.7	348	30.8
250 < 500	4.2	0	0.0	0	0.0
500 ≤ 1,000	2.4	5	33.3	322	28.5
<i>Subtotal ≤ 1,000</i>	<i>70.2</i>	<i>15</i>	<i>100.0</i>	<i>1,130</i>	<i>100.0</i>
> 1,000	1.7	0	0.0	0	0.0
Not Reported	28.1	0	0.0	0	0.0
Totals	100.0	15	100.0	1,130	100.0

Source: Bank records, and D&B business demographic data

As shown in Table 7 above, the most recent business demographic data from D&B indicates that 70.2 percent of the non-farm businesses in the assessment area that report to D&B generate revenues of \$1 million or less annually. Because 9,003 businesses, or 28.1 percent of the total businesses in the area did not report revenue information, examiners placed less weight on the data for comparison. Table 7 shows The Chasewood Bank’s overall level of lending is 100 percent to businesses with GARs of \$1 million, which is excellent. In addition, the bank’s distribution of small business loans to entities with GARs less than \$250,000 is on par or slightly better than the D&B data, which adds further support to an overall excellent record.

Therefore, given the demographics of the assessment area, the bank’s record of lending to smaller-sized businesses has an excellent penetration among businesses of different sizes.

GEOGRAPHIC DISTRIBUTION OF LOANS

The bank’s overall record of lending in geographies of different incomes is reasonable in relation to the geographic makeup and location of the bank’s offices. When arriving at the overall rating, examiners placed less weight on the bank’s record regarding geographic distribution of loans due to the absence of any low- or moderate-income areas in the assessment area.

The distribution of the institution’s small business loans reflects reasonable penetration throughout its assessment area.

RESPONSE TO CRA-RELATED COMPLAINTS

The institution has not received any CRA-related complaints since the bank's inception.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

GLOSSARY

Census Tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Dun & Bradstreet: The Dun & Bradstreet Corporation is a provider of business and financial information drawn from a global database of more than 50 million businesses.

Household Income: Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

HUD Adjusted Income Data: The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of geography.

Metropolitan Statistical Area (MSA): One or more Metropolitan Districts that have economic and social ties. A Metropolitan District is a large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of geography.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of geography.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of geography.